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Supreme Court of the United States.

OCTOBER TERM, 1973.

No. 73-1744

JULIUS E. FOSTER,
Petitioner,

v.

AMERICAN MACHINE & FOUNDRY CO. ET AL.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit.

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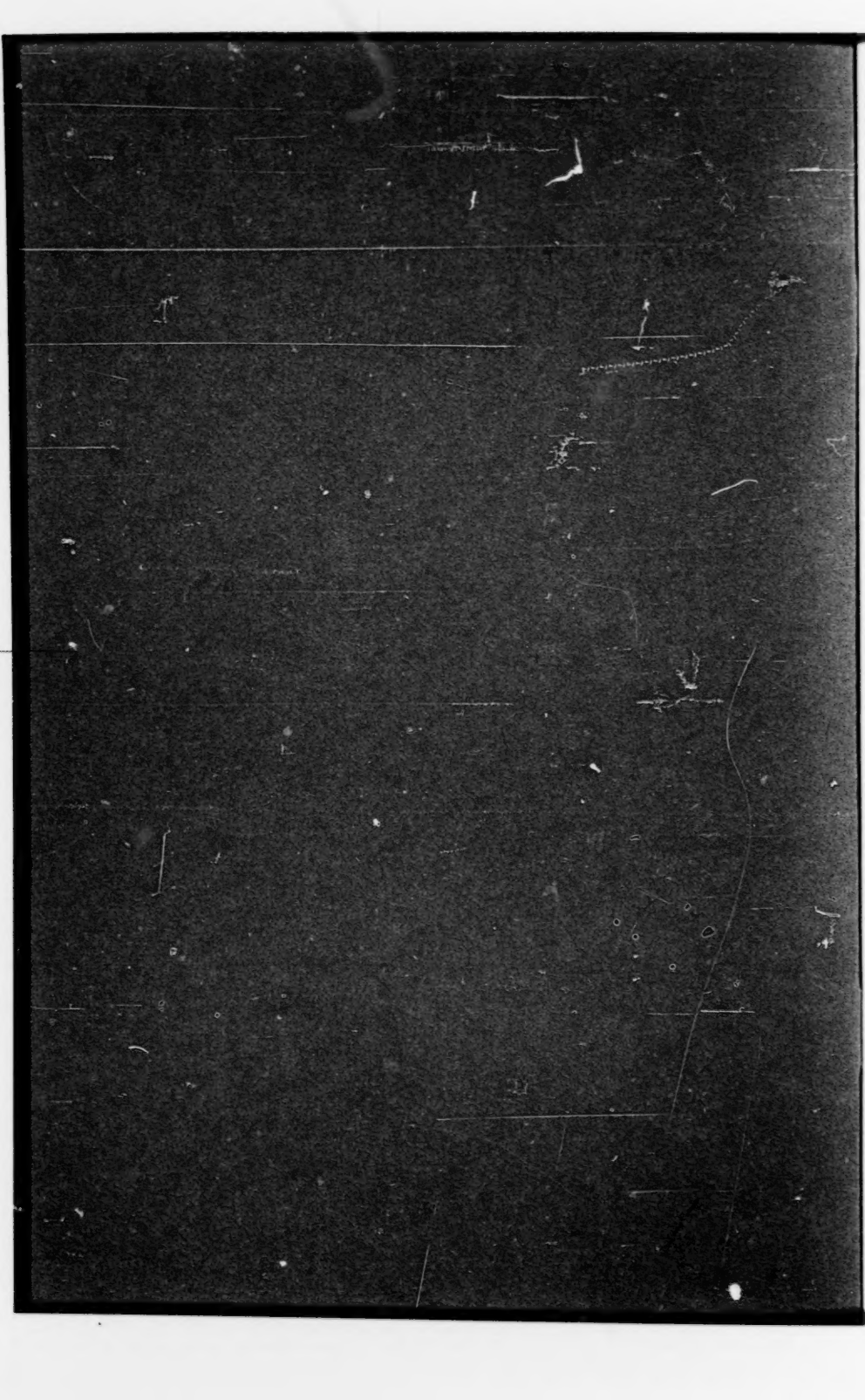

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Supreme Court of the United States.

OCTOBER TERM, 1973.

No.

JULIUS E. FOSTER,
PETITIONER,
v.
AMERICAN MACHINE & FOUNDRY CO. ET AL.,
RESPONDENTS.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit.

Julius E. Foster prays that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Second Circuit entered in this case on February 21, 1974.

Opinions Below.

The opinion of the United States Court of Appeals for the Second Circuit (Appendix A, *infra*, pp. 15-28) is not yet reported. That opinion affirms an order of the United States District Court for the Southern District of New York (Appendix A, pp. 34-37) confirming a report of the special master awarding petitioner $344,000 as "rea-

sonable royalties" for patent infringement, and then proceeding to order a compulsory license on all new infringements by defendants and their customers for the remaining four years of the life of plaintiff's patent.

Jurisdiction.

The judgment of the Court of Appeals (Appendix A, p. 15) was entered February 21, 1974; and this court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

Question Presented.

Whether the Constitution, the Federal Patent Act and controlling law empower the courts

(1) To force the owner of a process patent, held valid and infringed,[1] to grant against his will a "compulsory license" for all future new infringements of the patented process, and on royalty terms dictated by the court;

(2) To force the owner to accept a "reasonable royalty" based on the sale of a part only of a piece of *unpatented* apparatus and technology, and in substitution for the statutory mandate (35 U.S.C. § 284) of at least "a reasonable royalty *for the use made of the invention*" as defined by the *patented* process claims; or

(3) To force the owner to forfeit his statutory right (35 U.S.C. § 271(b) to hold the active inducer of the infringement of the process patent liable for the actual process infringement, and thereby, indeed, to force the owner to prosecute a multiplicity of suits against some

[1] *Foster* v. *Magnetic Heating Corporation, American Machine & Foundry Company et al.*, 297 F. Supp. 512 (S.D. N.Y. 1968), *aff.* 410 F. 2d 12 (2 Cir. (1969)), *cert. den.* 396 U.S. 829 (1969), 24 L. Ed. 2d 80.

70 direct infringers of the patented process, admittedly all infringing as a result of the licensing, sale of equipment and indemnification by the inducer.

Constitutional and Statutory Provisions Involved.

CONSTITUTION OF THE UNITED STATES.

Article I, section 8, clause 8.

> "The Congress shall have Power . . .
> "To promote the Progress of Science and useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their . . . Discoveries. . . ."

Amendment V.

> "No person shall be . . . deprived of . . . liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation."

STATUTES:

35 U.S.C. § 102.

> "A person shall be entitled to a patent unless. . ."

35 U.S.C. § 284.

> ". . . the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for use made of the invention by the infringer. . . ."

35 U.S.C. § 271(b).

> "Whoever actively induces infringement of a patent shall be liable as an infringer."

Statement.

A. Summary.

The Foster patent, for a process for welding tubes and pipes, was found valid and infringed in *Foster* v. *Magnetic Heating Corporation, American Machine & Foundry Co. et al.*, 297 F. Supp. 512 (S.D. N.Y. 1968), *affirmed per curiam*, 410 F. 2d 12 (2 Cir. 1969), *certiorari denied*, 396 U.S. 829 (1969).

In adopting a special master's novel view on the accounting of a "reasonable royalty," predicated *not* on the "use" of the patented tube forming process, as required by statute (35 U.S.C. § 284), but on a portion of the sales price of pieces of welding apparatus and so-called "technology" *not even covered by the patent claims*, the Court of Appeals sustained what petitioner believes to be an illegal, insufficient and unconstitutional award of $344,000.

In addition, simply because plaintiff "was not in business" and does not "exploit the patent on his own," the Court of Appeals ordered a *compulsory license* for all future and new uses of the Foster patented process for the remaining four years of the life of the Foster patent, and on terms set by the court.

This *compulsory license* was not based on any inequitable or illegal conduct of petitioner, and was ordered over petitioner's protest that it violates his constitutional rights in his valid patent!

The *compulsory license in futura*, in addition, was established on a royalty fixed by the court that is based on a percentage of an *unpatented* part of the so-called Thermatool sales price of "technology," and not on the statutory requirement of at least "a reasonable royalty *for the use made of the invention*" (emphasis is added) of the patented process covered by the patent claims.

Additionally, for no clearly explained reason, the Court of Appeals discriminatorily stripped petitioner of his statutory right under 35 U.S.C. § 271(b), accorded all other holders of valid patents, to hold the admitted inducer of infringement liable for the actual process infringement by the users of the process invention, licensed and indemnified by the inducer, and who make the tubing and pipe by this patented process!

In fact, the Court of Appeals appeared to invite petitioner, rather, to bring a multiplicity of separate suits against "77 mill operators as direct infringers" (fn. 6, Appendix A, p. 21) in contravention of the express purpose of 35 U.S.C. § 271(b)!

B. Process Patent Claims are Involved.

Foster's method (claim 5) calls for a *complete process "of manufacturing welded tubing or pipe from strip or skelp,"* including *all* of the following steps:

(1) "folding the strip or skelp into cylindrical form to engage the seam edges progressively into butting contact,"

(2) "passing an electrical welding current across the seam in the region of the progressively butting contact,"

(3) "and setting up an alternating magnetic flux control field in that region of the path of the welding current stream, the magnetic flux control field being disposed physically and angularly relative to the current streams to establish an electrodynamic action between the control flux field and the flux field of the weld current to cause the current stream to reciprocate longitudinally of the seam in the region of the progressive contact."

This last step in this tube manufacturing process, the District Court held (297 F. Supp., at 515) in its original decision, was effected through the use of the appropriate

magnetic core "positioned with respect to the region of the electrodes and the V-shaped progressively engaged welding zone"; namely, in the case of defendants' structures, by its internal "magnetic core," termed "impeder" by defendants.

The other two welding method claims and the apparatus claim are further discussed by the District Court at page 515 of its original decision, *supra.*

It should be noted that none of the patent claims cover just the "impeder" referred to by the Court of Appeals, nor the Thermatool apparatus or technology per se, on part of the sales price of which, the so-called "reasonable royalty" was predicated.

In fact, the infringement originally found by the District Court in its earlier decision, *supra* (297 F. Supp.), on what it characterized as petitioner's "radically new idea" and "revolutionary concept" (p. 514), resided in the *use* of the defendant's Thermatool welding apparatus in its licensees' tube forming and welding production—"operated in their intended manners" (p. 516).

And in its final judgment after accounting (Appendix A, p. 35), par. 6, the District Court purports to award damages for "*the use* by purchasers and lessees of such welding equipment . . . *in production* of longitudinally welded tube and pipe."

And yet the award, contrary to the statutory requirement of a reasonable royalty based on such *use* of the process invention, was improperly and unconstitutionally based on welding components *not* covered by the claims of the Foster patent, and *not* on the use of the patented process to produce tubing.

C. The Compulsory Future License.

Apart from a statement of maintaining a " 'flexible approach' in patent litigation," and in order at least to give

petitioner "half a loaf . . . that seems fair" (Appendix A, p. 28), the Court of Appeals provided no basis for the unparalleled action of what it admitted is "compulsory licensing in favor of appellant at the royalty fixed by the Court."

As will later be shown, this action unconstitutionally deprived petitioner of the exclusive rights in his valid patent.

D. Deprival of Rights to Hold Inducer For the Process Infringement.

While the Court of Appeals states (fn. 6) it is *not* deciding "the question whether Foster could sue the 77 mill operators as direct infringers," it has apparently overlooked the fact that the final judgment after accounting, par. 6, does decide that question and *bars petitioner* from such action and from collecting for the actual direct infringement of the Foster process claims.

The District Court purported to decide that very question, finding that the award, while *not* based on the statutory requirement of a reasonable royalty on the use of the process invention,[2] was incongruously still to cover such "use by purchasers and lessees . . . in production of longitudinally welded tube and pipe."

In discriminatorily preventing petitioner from collecting from the admitted inducer of the infringement by the users of the process invention, as provided for by 35 U.S.C. § 271(b), and as urged by other courts in the

[2] Your petitioner's counsel was soundly criticized for attempting to invite the court's attention to the fact that this predicating of "reasonable royalty" on an unpatented item and wrong base, was an invention of the master, apparently colored by his firm's representation of a client (TOCCO) owning rights in defendant's very welding process technology here in litigation.

interest of preventing multiplicity of litigation, your petitioner again has been deprived of rights heretofore always accorded in litigation against joint tortfeasors.

Reasons for Granting the Writ.

A. THE COMPULSORY LICENSING ASPECT OF THE DECISION BELOW IS IN SERIOUS CONFLICT WITH PRIOR DECISIONS OF THIS SUPREME COURT AND IS CONTRARY TO THE CONSTITUTION AND THE REPEATED EXPRESSIONS OF THE CONGRESS.

Never before has any court undertaken to expunge the "exclusive" right of Article I, § 8, of the Constitution by granting compulsory licenses for the life of a valid patent and on terms fixed by the court—particularly absent wrong-doing by the patentee.

In its discourse as to balancing equities to justify the failure to grant an injunction, the Court of Appeals confuses its discretionary power not to enjoin the defendant and its customers from the *present* infringing activities or continuation of the same, with the usurped power to deprive petitioner *in futura* of all his constitutionally guaranteed "exclusive" rights on all *future brand new infringements* with other customers of defendants!

Significantly, the Court of Appeals cites (and can cite) *no case* that is authority for forcing compulsory licensing on new, future infringements for the life of a valid patent and on terms dictated by the court—all for the purpose of giving the patentee of a valid patent "half a loaf . . . that seems fair" (Appendix A, p. 28).

The Court of Appeals cites no case, furthermore, that forces a patentee to accept as a fee for that compulsory future blanket licensing a royalty based on an *unpatented* piece of apparatus or technology; where the valid and infringed patent claims cover a *process use* and the statute dictates at least a reasonable royalty based on such *"use of the invention"!*

The closest citation relied upon by the Court of Appeals was *Royal-McBee Corp.* v. *Smith-Corona Marchant, Inc.*, 295 F. 2d 1, 6 (2 Cir. 1961), but this falls far short of any such proposition.

In that case, the allowance of a royalty payment instead of an injunction was equitably predicated upon the patent holder's "misleading" of the infringer as to what it was not asserting to be an infringement!

There has admittedly been no inequitable or illegal conduct of petitioner alleged, proven or found in this suit, and no compelling public policy for this new principle of law of compulsory licensing and on terms dictated by the court, and based on *unpatented* items at that.

Indeed, this conduct by the Court of Appeals, predicated on the fact that petitioner is not "in business" or does not himself "exploit the patent on his own" (Appendix A, pp. 21, 28), has been heretofore *specifically rejected by the Supreme Court.*

Even though a patentee is not a commercial user of his patent, it has long been established that (*Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 406, 430 (1908)):

> "An inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute, and this right is not dependent on his using the device or affected by his non-use thereof, and, except in a case where the public interest is involved, the remedy of injunction to prevent infringement of his patent will not be denied merely on the ground of non-user of the invention. [headnote.]"
>
> . . . . . .
>
> "It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a

> prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee."

There is, indeeed, a long history of the refusal of Congress to legislate compulsory licensing; *Bulletin of the American Patent Law Association*, Oct.-Nov., 1972, pp. 717-721:

> "In summary, it is submitted that the subject of general compulsory licensing has been the subject of exhaustive legislative study for over 60 years. It has been the repeated conclusion of the legislature that no such legislation is warranted and none has been enacted."

Clearly this far-reaching and unconstitutional precedent by one of the most prestigious Courts of Appeals in the land should be promptly treated with by this Supreme Court, since its potential effect in revolutionizing the power of courts in patent cases, and setting a new and foreign precedent in our law, is most evident.

B. The Predicating of Statutory "Reasonable Royalty" On Unpatented Items Is In Conflict With Prior Decisions Of The Supreme Court and Other Courts of Appeals.

It is significant that neither the District Court nor the Court of Appeals cites, or even pretends to rely upon, a single precedent to support its allocation of a "reasonable royalty" to a part of a piece of apparatus or technology *that is not even covered by the patent claims!*

Indeed, while citing this Supreme Court's decision in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U. S. 476 (1964), for another issue, the court proceeds to

sanction predicating royalty on *unpatented* items despite the clear admonition in that very case to the contrary (377 U. S. at 504-508). See also, *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502, 517 (1917); *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 667 (1944).

Nor does the Court of Appeals cite a single authority empowering the court, in so doing, to refuse to permit petitioner to have his statutory remedy which all the courts have heretofore unanimously interpreted a patentee to have; namely, a "reasonable royalty" on the actual *"use of the invention"*—*i.e.*, on the admittedly proven 1.7 billion dollars of infringing *use* of the *patented process* of the patent claims, and not on a part of the sales price of an unpatented part of an apparatus.

Before the present case, this had long been settled by the Supreme Court, as in *Mowry* v. *Whitney*, 14 Wall. 620, 652 (1871):

> "The patent is for an entire process, made up of several constituents. The patentee does not claim to have been the inventor of the constituents. The exclusive use of them singly is not secured to him. What is secured is their use when arranged in the process."

And even the Second Circuit Court of Appeals has previously obeyed the statute and awarded the reasonable royalty on the use of the patented invention. Thus, for example, in *Georgia-Pacific Corp.* v. *U. S. Plywood-Champion Papers Inc.*, 446 F. 2d 295 (2 Cir. 1971), the royalty was based on the production of the *patented* invention.

So, also, in other circuits, see decisions such as *Russell Box Co.* v. *Grant Paper Box Co.*, 203 F. 2d 177 (1 Cir. 1953).

The radical departure from established patent law in this particular, also, warrants this Supreme Court's intervention.

The consistent holding of this Court and all circuits has been that of requiring determination of a reasonable royalty for a process infringement based on its "utility, advantages, and the extent of use involved," and not on the sale of an unpatented item.

C. The Present Decision is in Conflict with the Supreme Court and Other Courts in Holding that Petitioner has No Right to Sue the Inducer-Licensor for the Process Infringement to Avoid Multiplicity of Suits.

The forcing of petitioner arbitrarily to forfeit his statutory entitlement (35 U.S.C. § 271(b)) to hold the admitted inducer-licensor of the patented process infringement liable for the actual process infringement is in direct and mischievous conflict with the prior decisions of all other courts of appeals and their district courts of which petitioner is aware; for example, *Moseley* v. *United States Appliance Corp.*, 155 F. 2d 25 (9 Cir. 1946), and *Morris Bean & Co.* v. *Reichhold Chemicals, Inc.*, 329 F. Supp. 1396 (D.C. N.D. Ala. W.D. 1971).

If patent owners are thus required to institute multiple suits against each direct infringer and § 271(b) is to be abrogated, the number of patent suits in the various district courts will increase several-fold, maybe ten or twenty times the present number of one thousand per year—a matter of expressed concern to this Supreme Court in *Blonder Tongue Laboratories* v. *University of Illinois Foundation*, 402 U.S. 313 (1971).

The awarding of relatively low damages based on the unpatented product sales of the inducer-licensor, and the refusal to charge the inducer with liability for the greater damages of the infringement of the patented process claims by the licensee-customers of the inducer, whom the inducer

has agreed to indemnify, reflects a wide departure from the long-established law of this Supreme Court and all the courts of the land as to the liability of joint tortfeasors, altogether apart from 35 U.S.C. § 271(b) (86 Corpus Juris Secundum, Torts, § 34, note 9).

Again, the decision herein departs widely from the established law in other circuits and in this Supreme Court.

D. Summary.

The mischief, confusion and discrimination inherent in this usurpation of power by one of the most prestigious courts of appeals of the land should not be permitted to stand.

It is so contrary to all prior pronouncements of this Supreme Court and all other courts of the land; it is so repugnant to the specific statutory mandate of Congress as to damages for patent infringement as interpreted by all other courts; and it is so violative of the guaranteed "exclusive" privilege of Articles I, § 8, and of the Fifth Amendment of the Constitution as to require this Supreme Court's prompt intervention to preserve the sanctity and integrity of the law.

The decision and the conflict it raises throws into utter confusion the exclusive privilege of valid patents and the rights of patentees, and the right of Congress, not the courts, to prescribe the statutory damages to be awarded.

The conflict of decisions is patent—and the issues are substantial and important, involving the whole substance of the "exclusive" grant of a patent and the rights flowing therefrom.

No reason is seen why long-established law, settled by this Supreme Court and so interpreted by all the other courts of appeals since the beginnings of this country, should now be uprooted and discarded.

Conclusion

The decision is in hopeless and violent conflict with decisions of other courts of appeals and this Supreme Court. It misapplies decisions of this Supreme Court. In striking down the "exclusive" right in a valid patent, and thwarting the statutory and decisional law as to infringement liability, it raises most substantial questions of federal and constitutional law which should be promptly decided by this Court.

The petition for certiorari should accordingly be granted.

Respectfully submitted,

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RINES AND RINES,
PAUL J. FOLEY,
Attorneys for the Petitioner.

APPENDIX A.

UNITED STATES COURT OF APPEALS

For the Second Circuit

No. 230 September Term 1973

Argued: December 4, 1973 Decided: February 21, 1974

Docket No. 73-1822

JULIUS E. FOSTER,

Plaintiff-Appellant,

—against—

AMERICAN MACHINE & FOUNDRY CO.,
MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,

Defendants-Appellees

Before WATERMAN and FEINBERG, Circuit Judges, and GURFEIN,* District Judge.

Appeal from an order of the United States District Court for the Southern District of New York, Hon. Edmund L. Palmieri, *Judge*, confirming the Report of the Special Master and awarding the plaintiff reasonable royalties for patent infringement in the amount of $344,000 with interest from the date of the filing of the Special Master's Report and denying injunctive relief and ordering compulsory license.

Affirmed.

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* Of the United States District Court for the Southern District of New York, sitting by designation.

PAUL J. FOLEY, Washington, D.C.
(Belen and Foley, Washington, D.C.; Robert H. Rines, Rines and Rines, Boston, Mass.; and Franklin R. Weissberg, Colton, Weissberg & Yamin, New York, N.Y., of counsel), Attorneys for Plaintiff-Appellant.

WILLIAM K. KERR, New York, N.Y.
(Fish & Neave, Herbert E. Schwartz, Raymond C. Marier, New York, N.Y. and Frank H. Gordon, Rogers, Hoge & Hills, New York, N.Y., of counsel), Attorneys for Defendants-Appellees.

GURFEIN, D.J.:

This is an appeal from a judgment of the District Court, Palmieri, J., confirming the Report of the Special Master, Dana M. Raymond, which awarded the plaintiff reasonable royalties for the defendants' infringement of his patent in the amount of $344,000 with interest from the date of the filing of the Master's Report, which denied injunctive relief, and which ordered a compulsory licensing on a reasonable royalty fixed by the Court, in lieu thereof. The issues of validity and infringement are not before us on this appeal, having previously been resolved in *Foster* v. *Magnetic Heating Corporation*, 297 F. Supp, 512 (S.D.N.Y. 1968), *aff'd per curiam*, 410 F.2d 12 (2 Cir.), *cert. denied*, 396 U.S. 829 (1969) ("Foster I"). For the reasons set forth below, we affirm the judgment.

Since Judge Palmieri's opinion in *Foster I* explicated his findings that Foster's patent was valid and infringed, it is unnecessary to repeat those findings in detail. Some discussion of the facts is necessary, however, for an understanding of the question of the relief appealed from, including the proper measure of damages.

The plaintiff is the inventor of Patent No. 2,882,384 entitled "Welding System." This welding system is essen-

tially an impeding device. "It relates to the progressive continuous welding of such items as sheet metal tubes with the aid of a pair of electrodes to which is applied an alternating current voltage for the purpose of supplying electric current for heating the edges of the tube to weld the same together in a continuous process as the sheet metal is folded into tubular form and drawn past the electrodes." (297 F. Supp. at 514). The Foster patent included "use" claims as well as "apparatus" claims. The utility of the invention is found in Judge Palmieri's description of the prior art and the teachings of the patent in suit: "Welding apparatus of this character had long preceded the Foster invention, since at least the early 1920's, but was subject to spotty heating effects that produced discontinuous welding spots or beads which left the welded tube with spaced unwelded regions and stress-concentration weakened zones, which prohibited the use of such tubes in applications where they were required to pass fluids or the like or where they were to be pressurized." 297 F. Supp. at 514.

The Foster patent relates to an improvement in electrical contact resistance welding, one of several systems for longitudinal welding of pipes and tubes, which was exemplified in the Foster patent by application to low frequency welding. The key feature of the Foster patent is the use of electromagnets, positioned in the vicinity of the welding zone, for the purpose of controlling or influencing the path of the welding current.

The appellant, Julius E. Foster, the patentee and the owner of the patent in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit.

The principal defendant and real party in interest is American Machine & Foundry Co. (AMF). Infringement of the patent has occurred as a result of the commercial activity of AMF's wholly-owned subsidiary, AMF Thermatool, Inc., and its predecessors,[1] and the individual proprietors of such predecessor corporations (herein collectively referred to as Thermatool). Thermatool manufactured welding machinery, which included *as a component* an impeder which embodied the process protected by Foster's patent.[2]

Thermatool in turn sold and leased the welding systems, both those containing the infringing impeder and those without it, to foreign and domestic mill producers for the production of longitudinally welded tubes and pipes.[3] The Master found that "the value of the impeder process, as disclosed in the Foster patent, constitutes a minor but significant fraction of the total value of Thermatool's welding technology."

I

The primary issue on this appeal is the amount of damages to which Foster is entitled.

The Master and the District Court applied the willing licensor-willing licensee approach to hypothetical negotia-

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[1] Which includes Magnetic Heating Corp.

[2] Thermatool also manufactures and sells other welding systems which do not employ impeders and do not infringe the appellant's patent.

[3] AMF has never manufactured or sold any low frequency electric resistance welding systems of the kind described in the Foster patent. Impeders, which were found to correspond in function to the electromagnets of Foster's patent, are found in some, but not all, of AMF's high frequency contact resistance longitudinal welding equipments.

tions conducted in 1959-1961 between Foster, as a willing licensor, *and Thermatool,* as a "willing licensee who would respect the Foster patent." See *Georgia-Pacific Corp.* v. *U.S. Plywood-Campion Papers, Inc.*, 446 F.2d 295 (2 Cir.), *cert. denied*, 404 U.S. 870 (1971). Based upon this approach, the Master concluded that "[t]he parties would have agreed upon a royalty measured by the output power of Thermatool's equipment adapted for use of the Foster impeder process" of $20 per kilowatt of rated output power of Thermatool's welding equipment, "such royalty to be paid for a license to Thermatool to continue its manufacture and sale of the equipment and for a license to Thermatool's customers to use the equipment." The District Court confirmed the report of the Master.[4]

On this formula, the District Court entered judgment for Foster in the sum of $344,000, with interest at 6% from September 22, 1972, the date of filing of the Special Master's Report.

Foster appeals upon the ground that the judgment is grossly inadequate. He agrees that the proper measure of damages is a "reasonable royalty," but he contends that it should be based upon the extent of use of his "welding system" by the *mill operators* who leased the welding equipment containing the infringing impeder from Thermatool.

He says that Thermatool induced the infringement by the mill operators, and, hence, is an infringer within the meaning of 35 U.S.C. § 271(b). That subsection provides

[4] The Master rejected AMF's contention that the royalty should be based on the "weld head" in Thermatool's equipment, because the Foster invention disclosed and claimed a "process" for improved welding, and not merely an "improved weld head." On AMF's theory, the royalty, at 2% of the aggregate sales price of the infringing weld heads, would have amounted to only about $10,500.

that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Arguing that Thermatool is an "inducer" rather than a direct infringer, appellant doubles back to 35 U.S.C. § 284 and says that appellant should be awarded "in no event less than a reasonable royalty for the use made of the invention by the infringer." If the infringer is the mill operator, he argues, then the "use of the invention" must be the use made by the mill operator and *that* use should measure the damages. He contends that damages so measured should be imposed upon the inducer, because under 271(b) he is liable as if he were the infringer, and because he is, in any event, a joint tort-feasor, liable *in solido*.

The argument, which has some surface plausibility, is without merit.

The Patent Law was amended in 1946, to provide for the award of "damages" only; and not, as had previously been the case, for an accounting of the profits of the infringer. Act of August 1, 1946 c. 726 § 1, 60 Stat. 778, 35 U.S.C. (1946 ed.) §§ 67, 70.[5]

We have been instructed that "the present statutory rule is that only 'damages' may be recovered." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964). As noted in *Aro Mfg. Co.*, damages are " 'compensation for the pecuniary loss he [the patentee] suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.' *Coupe* v. *Royer*, 155 U.S. 565, 582." (377 U.S. at 507). Damages to the patentee constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement

[5] In the 1952 Codification, §§ 67 and 70 of the 1946 Code were consolidated in the present § 284.

had not occurred." *Id.*, citing *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552.[6]

If we ask ourselves how much Foster would have made if Thermatool had not infringed, the answer must be zero. But Congress was not satisfied to leave the award, in such case, at zero. 35 U.S.C. § 284.[7]

Since appellant would prove no damages at all under the tests noted in *Aro, supra,* because he was not in business either directly or through licensees, he is entitled *only* to the reasonable royalty for use of the invention.

Foster urges that a "reasonable royalty" for such use by the mill operators would result in a royalty of $52,000,000 from the sale of 77 "equipments" instead of the $344,000 that was awarded. He notes that there are 69 tube mill operators who have produced $1,750,000,000 worth of longitudinally welded tube and pipe, employing the infringing Thermatool welding systems. Postulating a reasonable royalty of 3%, the appellant concludes that his damages amount to $52,000,000.

The Master found that "[s]uch damages would be in excess of the total revenues of Thermatool during the ac-

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[6] We note, in passing, that *Aro Mfg. Co., supra,* did not deal with an "active inducer" (§ 271(b)), but with a contributory infringer (271(c)), which Thermatool was not. We do not deal here with the question whether Foster could sue the 77 mill operators as direct infringers. And we do not have occasion to construe Mr. Justice Black's statement, dissenting in *Aro Mfg. Co., supra,* 377 U.S. at 523: "The Court holds, quite properly I think, that a patentee can get only one recovery for one infringement, no matter how many different persons take part in the infringement.

[7] The "reasonable royalty" concept was originally adopted by the courts in order to fix damages in the absence of an established royalty or to compensate a patentee unable to demonstrate any actual damage. *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.,* 235 U.S. 641 (1915). See *Russell Box Co.* v. *Grant Paper Box Co.,* 203 F. 2d 177 (1 Cir. 1953); *Munger* v. *Perlman Rim Corp.,* 275 Fed. 21 (2 Cir. 1921).

counting period and far in excess of the revenues and profits of Thermatool in respect of its domestic sales of welding equipment." And the District Court agreed.

As indicated, the Master related the "reasonable royalty" theory to hypothetical negotiations between Foster and Thermatool, rather than between Foster and the 69 mill operators. He also disposed of the theory that such negotiations with the mill operators would have produced a greater royalty. Support for such theory would have to be found in a history evidencing willingness by the mill operators to pay a running, or throughput royalty, based on their production, for rights to the welding process. The Master found that the evidence was to the contrary, a finding confirmed by the District Court. We cannot say that the finding was clearly erroneous.

35 U.S.C. § 284 provides:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

"This rule contemplates a suppositious meeting in advance of infringement between patent owner and potential infringer in order to work out a license agreement,"[8] Feinberg, J., in *Georgia-Pacific Corp., supra,* 446 F.2d at 296-297.

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[8] We think the Master properly expressed the concept when he presumed that in the "negotiations" prudent businessmen would arrive at a reasonable royalty "which would (1) provide a fair return to Foster and (2) permit Thermatool to continue its use of the infringing impeder process and earn a reasonable profit from such use."

If we treat the mill operator as the infringer, there is no substantial evidence that he would have agreed to any royalty for the use of the infringing impeder at the "suppositious meeting." As Judge Palmieri held, there were two factors which operated to limit the damages of the plaintiff: "(1) [p]ipe and tubing manufacturers customarily do not pay running royalties to the owners of welding process patents; and (2) [p]laintiff's patent represents a relatively small portion of the overall commercial value of Thermatool's high frequency welding system. Since running royalties are not customary in the pipe and tubing industry, it is unlikely that any producer would have been willing to pay such royalties for the use of equipment that employed plaintiff's impeder." We agree. The question was, what would a reasonable man be willing to pay for the use of a part of the whole process. *Merrill Soule Co.* v. *Powdered Milk Co. of America,* 7 F.2d 297, 299 (2 Cir. 1925).

A portion of the lump-sum sale price of the Thermatool equipment in its entirety may be said to have been paid for the Foster process, even though the customer was not charged a separate fee; but that is the very basis on which the District Court determined the reasonable royalty, noting that "plaintiff's impeder had a relatively small effect on the commercial value of defendants' high frequency welding system. . . ."

In practical terms, Foster had a patent which obviously required the manufacture of a piece of equipment to make it usable. Foster does not have any licensee who manufactures his patented apparatus or uses his patented process. The parameters of his patent embraced a component in a larger system which utilized his process. He did not have equipment to sell directly to the mill operators. He was hardly in a position to work out an agreement directly

with the mill operators. His theoretical licensee, in the formulation of a license agreement, was the manufacturer of the welding equipment who could use his process. And it is precisely in hypothetical negotiation with that prospective licensee that the District Court fixed the reasonable royalty.

Finally, we note that there are no other factors that would have been considered at the "suppositious meeting" to determine the reasonable royalty. Since Foster never operated commercially, there are no such factors as Foster's marketing program, Foster's lost sales of nonpatented items because of the infringement, or Foster's lost profits.

Appellant contends that even upon the theory of a reasonable royalty based on appellees' sales, the $20 per kilowatt royalty found by the District Court is a finding that is clearly erroneous. The total royalty awarded in the sum of $344,000 represents more than 3 per cent of the total sales price of the welding systems sold by Thermatool. These welding systems, including the step of turning the sheet metal into tubing, except for the use of the impeder, were found by the Master to be based on the teaching of the Park Patent No. 2,794,108, filed August 31, 1953, and issued May 28, 1957, owned by AMF. The Master found that "the Park patent disclosed and claimed the process and system for high frequency contact resistance welding of longitudinal seamed tubing for which all of Thermatool's welding systems involved in this accounting have been designed." The impeder is only a part of the entire high frequency contact resistance welding equipment sold by Thermatool, and an even smaller part of the entire welding complex. Significantly, the Foster impeder process is not used commercially in any electrical resistance welding systems at low frequencies, although such use was also disclosed in the Foster patent.

The royalty awarded of $20 per kilowatt is 10% of $200, an amount which the Master found Thermatool to have charged its customers "for the right to use Thermatool's welding technology (know-how and patents) and for services in connection therewith." The $20 per kilowatt royalty for the Foster impeder process properly took into account, we think, that the Foster process was "an improvement or supplement to Thermatool's high frequency process, rather than *vice versa*," and that "the selling price of Thermatool's equipment is accounted for in major part by the high frequency generator as to which Foster contributed nothing." We cannot say that the finding that "[t]he parties would have agreed on a royalty at a rate of $20 per kilowatt on all infringing equipment sold for use in the United States after April 14, 1959" was clearly erroneous. See *Columbia Machine & S. Corp.* v. *Adriance Machine Works*, 79 F. 2d 16 (2 Cir. 1935). "There is no mathematical formula for the determination of a reasonable royalty." See *Faulkner v. Gibbs*, 199 F. 2d 635, 639 (9 Cir. 1952).

In sum, we affirm the award of damages by the District Court.

II

Appellant contends that appellee failed to account for an additional 37 units which should have been, but were not, included in the Master's determination of the royalties to be awarded. On the royalty formula adopted by the Master and approved by the Court, this would require an additional maximum recovery of $37,000.

Twenty-six of these units were sold before April 14, 1959, the issue date of the Foster patent. Eleven of these units were allegedly sold after the issue date.[9]

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[9] Although these units were sold before the Foster patent issued, their impeder process relied on the Rudd 488 patent, owned by

With respect to the units sold *before* the issue date of the Foster patent, the sale could not have been, at the time, an infringement, or an inducement to infringe. *Coakwell* v. *United States,* 372 F.2d 508, 511 (Ct. Cl. 1967). The units sold were Thermatool's infringing units. We think that the continued use of the welding systems by the mill operators after the flat payment for the systems when bought, did not later constitute an infringement of the after-issued Foster patent. See *Aluminum Extrusion Co.* v. *Soule Steel Co.,* 260 F. Supp. 221, 224 (C.D. Cal. 1966). All the revenues from these sales were derived by AMF before the Foster patent issued.

Since Foster has shown no actual damage, we revert to the "suppositious meeting" after the Foster patent issued, to fix a royalty. We agree with Judge Palmieri "that the parties would have agreed that no royalty would be payable with respect to infringing equipment sold prior to the issuance of plaintiff's patent."

With respect to the eleven units allegedly sold after the issue of the Foster patent, the Master found that "the evidence does not establish that such eleven units have actually been fitted with impeders and operated in the United States for the production of longitudinally welded tube and pipe." The appellant points to no evidence to convince us that the finding is clearly erroneous.

III

Judge Palmieri, as we have seen, awarded interest on the sum awarded from September 22, 1972, the date of filing of the Special Master's Report to the date of judgment.

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appellee, which is the same in all material respects as the impeder process disclosed in the *earlier filed* Foster patent. (See *Foster I,* 297 F. Supp. 512 (Palmieri, J.)). The Rudd patent has been held to be the subservient patent.

Appellant contends that, since the award was based on a hypothetical license entered into immediately upon the issuance of his patent, he is entitled to interest on the royalties that should have been paid from that time to judgment. He says that the interest should run equitably on the outstanding infringing sales of each year from the end of each such year.

We think that under prior authority in this Court, appellant's argument cannot prevail as a matter of law. In *Georgia-Pacific Corp., supra,* this Court resolved the issue of statutory construction. This Court noted that while the 1946 House Report [10] provided for "interest from the time the infringement occurred," the final version of 35 U.S.C. § 284 speaks of "interest and costs as fixed by the court." It was held, accordingly, that "Congress did not purport to require interest from the dates on which royalties would normally have been paid." 446 F. 2d at 301. Instead, the statute was construed to mean that the trial court has the traditional discretionary power in equity to award interest. We cannot find, in the absence of a statutory mandate, that Judge Palmieri was required to award interest from an earlier date. See also *General Electric Company* v. *Sciaky Bros., Inc.,* 415 F. 2d 1068, 1076 (6 Cir. 1969).

IV

Appellant contends that the District Court erred in denying an injunction and adjudging, in lieu thereof, a compulsory licensing in favor of appellant at the royalty fixed by the Court.

We do not find any difficulty in agreeing with Judge Palmieri that an injunction would be an inappropriate remedy in this case. An injunction to protect a patent against infringement, like any other injunction, is an equi-

[10] H.R. Rep. No. 1587, 79th Cong. 2d Sess. (1946), to accompany H.R. 5311 at 1-2 quoted in *Aro, supra,* 377 U.S. at 505-506.

table remedy to be determined by the circumstances. 35 U.S.C. § 283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See *Hoe* v. *Boston Daily Advertiser Corp.*, 14 Fed. 914 (C.C. Mass. 1883). Here, as the District Court noted, the defendant manufactures a product; the appellant does not. In the assessement of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. *Nerney* v. *New York, N.H. & H.R. Co.*, 83 F.2d 409, 410-411 (2 Cir. 1936); *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F. 2d 734 (2 Cir. 1934).

Instead, the District Court avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties. This Court has approved such a "flexible approach" in patent litigation. *Royal-McBee Corp.* v. *Smith Corona Marchant, Inc.*, 295 F. 2d 1, 6 (2 Cir. 1961). Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, *that seems fair.*

Judgment affirmed.

FOSTER v. AMERICAN
MACHINE & FOUNDRY CO.
73-1822
Feb. 15, 1974
I concur
IRW

FOSTER v. AMERICAN
MACHINE & FOUNDRY CO.
I concur
UF
Feb. 4, 1974

CIV 249 OPIN 524

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK.

JULIUS E. FOSTER,
Plaintiff,
—against— 65 Civil 1114
ELP

MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,
AMERICAN MACHINE & FOUNDRY COMPANY,
Defendants.

APPEARANCES

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Special Master

PALMIERI, J.

The attached judgment is consistent with the decision announced tentatively from the bench on December 20, 1972. Consideration of the briefs submitted thereafter by the parties has not altered the Court's views in any respect except for the matter of the contingent fee arrangements by plaintiff with his counsel to which reference is made below.

The filing of this judgment marks the end of a lengthy episode of litigation in this Court.

This suit was commenced on April 14, 1965. The plaintiff, Julius E. Foster, the patentee and owner of the patent

in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit nor have there been any licenses under it. This state of facts resulted in making the ascertainment of damages a far more difficult task than would otherwise have been the case.

The trial took place on June 5 and June 6, 1968. Findings of fact and conclusions of law supporting Foster's claims of validity and infringement were entered on August 23, 1968 (297 F. Supp. 512). The Court of Appeals for the Second Circuit affirmed with a *per curiam* opinion on March 20, 1969 (410 F. 2d 12). An interlocutory decree was entered on September 11, 1968, referring the matter to a Special Master "to take and report account of the damages sustained by plaintiff by reason of said infringement." The proceedings before the Special Master were lengthy. They involved, in addition to the hearings and the taking of testimony, the conduct of extensive discovery proceedings initiated by plaintiff. After considering briefs and oral argument, the Special Master submitted a draft report to the parties on July 17, 1972, held an additional hearing on September 6, 1972, and submitted his final report on September 22, 1972. The case then came before the Court on plaintiff's and defendants' objections to the report. Rule 53(e)(2), Fed. R. Civ. P. After considering the record, which by this time had grown to impressive proportions, the report of the Special Master, and the briefs and oral arguments of counsel, a tentative oral decision was delivered from the bench on December 20, 1972, substantially confirming the report of the Special Master. The parties were invited to submit their objections to this proposed decision. They have been considered and must be deemed to be overruled except with respect to the Court's

restriction of the contingency fee arrangements made by plaintiff with his counsel. What was said by the Court on December 20, 1972, in this respect must be deemed to be withdrawn. In all other respects the tentative decision of December 20, 1972, is adopted as the Court's final decision.

By way of explanation something more must be said. On many occasions throughout the accounting proceedings sharply worded charges have been made by plaintiff's counsel against the defendants. These charges accusing defendants of failure to comply with orders of the Special Master and of failure to permit discovery were accompanied by numerous requests for the imposition of sanctions upon the defendants for contempt and other relief. Those actions by plaintiff, coupled with the unduly extensive and peripheral discovery in which he engaged, resulted in creating an undue burden for the Special Master and in an inordinate protraction of the proceedings before him. The plaintiff's charges were unfounded and his requests for the imposition of sanctions were all properly denied by the Special Master. He correctly concluded that the defendants had conducted themselves with "dispatch and candor" and attributed to the plaintiff the responsibilty for the undue length of the accounting. He was fully justified in reaching these conclusions.

Additionally, the Special Master himself was not spared from becoming the target of plaintiff's attacks. In the final chapter of the accounting, and when plaintiff was aware that the Special Master's award would not fulfill his multimillion dollar expectations, the plaintiff levelled the sharp points of his verbal barbs at the Special Master himself claiming for the first time that he should be disqualified because of an alleged conflict of interest. The plaintiff continued to mount this attack in his objections to the report filed with the Court. It would serve no useful purpose to examine these attacks here in any detail. Suffice to say that

they are specious and unpersuasive, and that they were made belatedly and long after plaintiff knew or should have known of the alleged grounds for disqualification. A party knowing of a ground for requesting disqualification cannot be permitted to wait and decide whether he likes the subsequent treatment he receives. *In Re United Shoe Machinery Corporation,* 276 F. 2d 77, 79 (1st Cir. 1960). Moreover the plaintiff has expressly disclaimed any reflections upon the Special Master because of bias or prejudice. The plaintiff's charges are completely rejected by this Court.

Finally, and solely because I believed these multiple attacks and the undue prolongation of the accounting proceedings were causally related in substantial measure to the contingent fee interests of plaintiffs' counsel,[1] this Court tentatively decided on December 20, 1972, to limit their contingent fees to a total of 30% of plaintiff's recovery. However, this restriction is withdrawn in the light of the affidavit filed by the plaintiff-attorney who regards his counsel's efforts and their "thousands of hours" of labor to be commensurate with the expected contingent fees which will amount to something more than 40% of the recovery for three attorneys.[2] Accordingly, the judgment filed herewith makes no reference to any control of the contingent fees by the Court.

Lastly this Court addresses its thanks to the Special Master, Dana M. Raymond, Esq., for his long and arduous

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[1] At the hearing on December 20, 1972, this Court stated: "My only view is that the hours amassed by the Special Master were amassed because of the undue and unnecessary prolongation of these proceedings by unduly extensive and peripheral discovery in this case and that there has been an unduly aggressive and zealous attempt to enlarge this recovery beyond any possible justification." (Tr. p. 17)

[2] Upon the hearing of December 20, 1972, it was represented to the Court that each of two attorneys would receive a 20% contingency fee, while an arrangement would be sought to defray the fees of a third attorney.

efforts. His report represents the fruits of a task well done. His dedication and scholarly application are deeply appreciated.

EDMUND L. PALMIERI
U. S. D. J.

Dated: New York, N. Y.
February 8, 1973

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT, NEW YORK

JULIUS E. FOSTER,
Plaintiff,

65 Civil 1114 ELP

v.

MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,
AMERICAN MAGNETIC & FOUNDRY CO.
Defendants.

Final Jugment After Accounting.

There having been entered in this cause an Interlocutory Judgment on September 11, 1968, and a Final Decree (after affirmance on appeal, except for accounting) on June 11, 1969; this cause then having been referred to Dana N. Raymond, Esq., as Special Master to take and report an account of the damages sustained by plaintiff; the Special Master having filed his report on September 22, 1972; plaintiff then having moved this Court for an Order (a) rejecting the report of the Special Master, (b) adopting the find-

ings which plaintiff unsuccessfully urged to the Special Master, (c) disqualifying the Special Master, (d) awarding to plaintiff interest from the year of first infringement, (e) awarding to plaintiff increased (trebled) damages, defendants having objected only to the amount of the award recommended by the Special Master and having opposed plaintiff's motion; counsel for the parties having filed briefs on these issues and the Court having heard oral argument on December 20, 1972, and having rendered its decision, it is

ORDERED, ADJUDGED and DECREED that:

1. The Report of Special Master submitted herein on September 22, 1972 is confirmed in all respects.

2. Plaintiff's motion to adopt the findings which he unsuccessfully urged to the Special Master is denied.

3. Plaintiff's motion to disqualify the Special Master is denied.

4. Plaintiff's motion for interest from the year of first infringement is denied.

5. Plaintiff's motion for increased (trebled) damages is denied.

6. Plaintiff's damages for infringement of claims 5, 16, 19 and 22 of Foster patent No. 2,882,384 based on (a) defendants' manufacture, lease and sale of high frequency contact resistance welding equipment with impeders and (b) the use by purchasers and lessees of such welding equipment are assessed at the rate of $20 per kilowatt of the rated output power of each high frequency contact resistance welding equipment with impeders sold or leased by defendants for use in the United States in production of longitudinally welded tube and pipe for the period from April 14, 1959 to the date of filing of the Special Master's Report (September 22, 1972). This amounts to the sum of $344,000. Plaintiff shall have judgment against defendants in the amount of $344,000.

7. Plaintiff shall have interest on such sum of $344,000 at the rate of 6% per annum from September 22, 1972 until the date of entry of this judgment and at the rate of 7½% from that date until the judgment and interest are paid or satisfied.

8. The Special Master is entitled to receive $50,000.00 as compensation for his services and $381.11 for disbursements in connection with the accounting herein. Defendants shall pay $40,381.11 of this sum, and plaintiff shall pay $10,000 of this sum. Payment of the Special Master's fee shall be accomplished by defendants paying the full amount of $50,381.11 to the Special Master within 30 days from the date of entry of this judgment and deducting plaintiff's share of this fee ($10,000) from plaintiff's $344,000 judgment set forth in Paragraph 6, *supra*.

9. In the exercise of the Court's discretion, no injunction shall issue prohibiting (a) defendants, or any of them, including the successors and assigns of the business of defendants, or any of them, from manufacturing, selling, leasing and using equipment which would infringe claims 5, 16, 19 and 22 of Foster patent No. 2,882,384 or (b) purchasers or lessees of any such equipment from using it.

10. Defendants, and the successors and assigns of the business of defendants, or any of them, shall pay to plaintiff the sum of $20 per kilowatt of the rated output power of each high frequency contact resistance welding equipment with impeders sold or leased by them from the date of the filing of the Master's Report (September 22, 1972) until the expiration date of the Foster patent (April 14, 1976) for use in the United States in the production of longitudinally welded pipe and tube, which equipment or the use thereof would infringe any of claims 5, 16, 19 and 22 of Foster patent No. 2,882,384.

11. The payments recited in Paragraph 10 of this Order shall be made on an annual basis. Each year's payment shall be made within 60 days after the end of the calendar year in which they were accrued, and shall be accompanied by a statement by a statement setting forth the basis for such payment.

12. The payment of the sums recited in Paragraph 10 of this Order shall constitute full compensation to plaintiff for infringement of claims 5, 16, 19 and 22 of his patent No. 2,882,384, by defendants, including the successors and assigns of the business of defendants, or any one of them, and the purchasers and lessees of any of defendants' welding equipments from the date of filing of the Master's Report (September 22, 1972) until the expiration of the Foster patent (April 14, 1976).

Dated: New York, New York
February 8, 1973

EDMUND L. PALMIERI
U.S.D.J.

JUDGMENT ENTERED FEB. 8, 1973

JOHN LIVINGSTON
Clerk